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MOTION BY SUPERVISORS ZEV YAROSLAVSKY AND DON KNABE

June 18, 2007

Earlier this month, Standard and Poor's (S&P) Ratings Services raised its rating on Los Angeles County's lease debt and pension obligation bonds to 'A+' from 'A' and assigned its 'AA-' issuer credit rating to the County. According to the S&P, "The upgrade reflects the county's improved long-term general creditworthiness. The outlook is stable, reflecting a strong economy, low debt…and good fund balances, which have shown gradual growth over the last several years." Over the past decade, the Board has exercised fiscal restraint and responsibility, and these improved ratings are clear evidence of that.

Still, there is room for improvement, and one of the most significant areas of potential liability is retiree health. While the County's pension system is largely funded, the same is not the case for the retiree medical, dental/vision and life insurance, also known as Other Post Employment Benefits, or OPEB. Historically, the County has paid for benefits covering employees in the LACERA pension plan on a pay-as-you-go basis, paying for benefits accrued in the *past* for employees as they retire. As a result, according to the May 2007 actuarial report conducted by Milliman Consultants and Actuaries, Los Angeles County has an accrued liability in the range of $12.3 billion to

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$13 billion.

While the Board recently began to set aside a small amount of funds for retiree health, there is no fiscal policy in place to prefund OPEB benefits. Prefunding involves paying for benefits for *current* employees as they are earned in addition to an annual amount necessary to pay off any *past* unfunded liability over a given number of years. Prefunding retiree health would allow the investment return on monies set aside to pay for a major portion of future costs. Furthermore, continuing to operate on a pay-as-you-go basis would only compound the problem, making it more difficult to address in the future – especially given high rates of health care inflation. Early attention may allow the County to avoid serious future financial problems.

To begin addressing these future liabilities, the Board has established a Committee comprised of the Chief Administrative Office, Treasurer and Tax Collector, Auditor Controller, the Service Employees International Union and the Coalition of County Unions to develop and make joint labor-management advisory recommendations to mitigate and control future retiree health costs.

WE, THEREFORE, MOVE that the Board of Supervisors instruct the Chief Administrative Officer to review the Committee's recommendations and prepare an analysis and report to the Board of Supervisors for review and consideration during FY 2007-2008 Supplemental Budget in September 2007.

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